

FLEETCOR Technologies(FLT)

\$289.19 (As of 01/06/20)

Price Target (6-12 Months): **\$306.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: B

Summary

FLEETCOR's top line continues to grow organically driven by increase in volume and revenues per transaction from certain of its payment programs. Acquisitions contribute to FLEETCOR's top line growth. A strong balance sheet enables FLEETCOR pursue growth initiatives in the form of acquisitions and investments and continue rewarding shareholders. Consistent share repurchases boost investors' confidence and positively impact earnings per share. This might have impacted the company's share price, which has outperformed its industry in the past year. However, higher interest expense is likely to weigh on the company's bottom line. Global presence exposes FLEETCOR to foreign exchange rate fluctuations. Acquisitions results in integration risk. Seasonality is another concern.

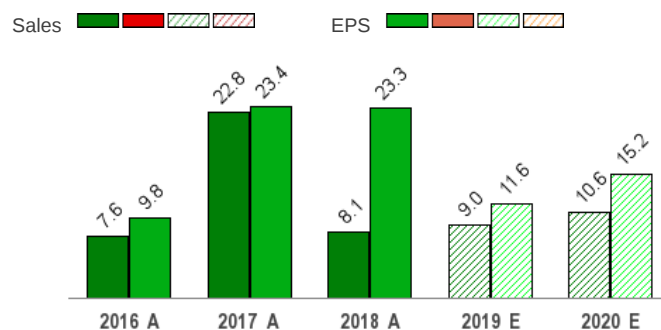
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$315.75 - \$184.26
20 Day Average Volume (sh)	791,971
Market Cap	\$25.1 B
YTD Price Change	0.5%
Beta	1.08
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 30% (76 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.6%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/05/2020
Earnings ESP	0.0%
P/E TTM	25.4
P/E F1	21.4
PEG F1	1.4
P/S TTM	9.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	688 E	719 E	755 E	774 E	2,935 E
2019	622 A	647 A	681 A	703 E	2,653 E
2018	586 A	585 A	620 A	643 A	2,433 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$3.09 E	\$3.28 E	\$3.53 E	\$3.64 E	\$13.53 E
2019	\$2.67 A	\$2.85 A	\$3.10 A	\$3.13 E	\$11.75 E
2018	\$2.50 A	\$2.57 A	\$2.68 A	\$2.78 A	\$10.53 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/06/2020. The reports text is as of 01/07/2020.

Overview

Peachtree Corners, GA based FLEETCOR Technologies, Inc. is a global commercial payments solution provider. Through its portfolio of brands, FLEETCOR helps companies automate, secure, digitize and control payments to, or on behalf of, their employees and suppliers. FLEETCOR serves businesses, partners and merchants in North America, Latin America, Europe, and Asia Pacific.

FLEETCOR's predecessor company was organized in the United States in 1986, and FLEETCOR had its initial public offering in 2010.

FLEETCOR uses both proprietary and third-party networks to deliver its payment solutions. The company owns and operates proprietary networks with well-established brands throughout the world, bringing incremental sales and loyalty to affiliated merchants. Third-party networks are used to broaden payment product acceptance and use. In 2018, the company processed approximately 2.9 billion transactions within these networks, of which approximately 1.4 billion were related to its gift product line.

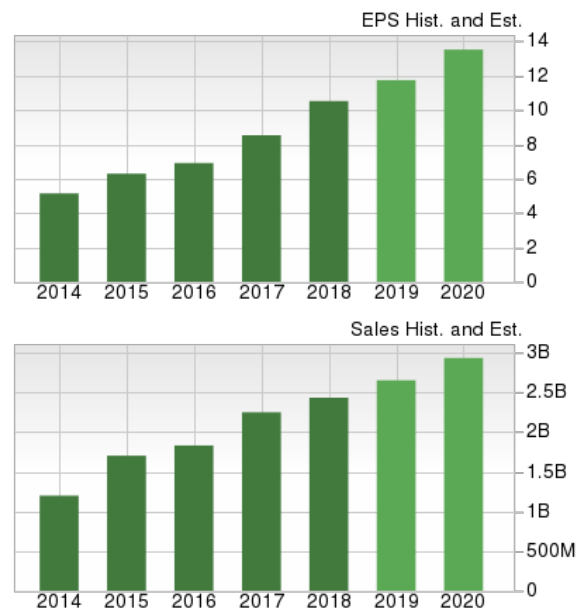
The company capitalizes on its products' specialization with sales and marketing efforts by deploying product-dedicated sales forces to target specific customer segments. The company promotes its products directly through multiple sales channels which includes field sales, telesales and digital marketing, and indirectly through its partners which include major oil companies, leasing companies, petroleum marketers, value-added resellers (VARs) and referral partners.

The company has presence in 82 countries, with the United States, Brazil and the United Kingdom being its primary operating regions. These countries contributed nearly 88% of revenues in 2018.

FLEETCOR operates in five categories — fuel, lodging, tolls, corporate payments and gift. It also provides payment products including fleet maintenance, employee benefits and long-haul transportation-related services.

In 2018, FLEETCOR generated \$2.43 billion in revenues, up 8.2% year over year. The company has two reportable segments — **North America (65% of revenues in 2018)** and **International (35%)**.

As of Dec 31, 2018, the company had approximately 7,580 employees worldwide.



Reasons To Buy:

▲ FLEETCOR's **top line continues to grow organically** driven by increase in both volume and revenues per transaction in certain of its payment programs. In third-quarter 2019, organic revenue growth was 11%, driven by solid double-digit growth across the company's product categories – fuel, corporate payments, tolls and lodging. Its fuel card business was up 10%, corporate payments increased 24%, toll business grew 17% and lodging business increased 17% organically. Organic revenue growth was 10%, 9% and 8% respectively in 2018, 2017 and 2016. For 2019, the company continues to expect 9-11% organic growth.

FLEETCOR looks strong on the back of organic growth and strategic acquisitions.

▲ **Acquisitions** are contributing significantly to FLEETCOR's top line. The company has been continuously acquiring and investing in companies both in the United States as well as internationally to expand customer base, headcount and operations and diversify its service offerings across industries. In 2019 so far, FLEETCOR acquired Nvoicepay, SOLE Financial, Travelliance and a tuck-in acquisition in its lodging business. While Nvoicepay should expand FLEETCOR's corporate payments business with full disbursement accounts payable cloud platform, SOLE Financial is expected to extend FLEETCOR's payroll and card portfolios and expand its addressable market, thus enabling it better serve small and medium-sized as well as larger businesses. Travelliance is expected to expand its lodging business across new international markets and the tuck-in acquisition will expand its presence into the airline segment and add international hotel coverage and capabilities. In 2018, the company made a \$21.2 million worth acquisition. In 2017, FLEETCOR completed three acquisitions - Creative Lodging Solutions ("CLS") to strengthen its hotel network through increased room nights; Cambridge Global Payments ("Cambridge") to expand its corporate payments footprint; and a fuel card provider in Russia. Since 2002, the company has acquired more than 75 companies and commercial account portfolios. In 2018, the company witnessed \$97 million of additional revenues from the acquisitions completed in 2017. In 2017, additional revenues of \$212 million were generated from acquisitions completed in 2016 and 2017.

▲ FLEETCOR is a **cash rich company with a strong balance sheet**. As of Sep 30, 2019, the company had cash, cash equivalents and restricted cash of \$1.47 billion, with no long-term debt to clear-off. This significant amount of cash provides FLEETCOR the flexibility to pursue strategic acquisitions and other related investments. Cash rich companies not only guarantee protection but are also likely to reward shareholders from their deep cash balances.

▲ We are impressed with FLEETCOR Technologies' endeavors in **rewarding its shareholders** through share repurchases. In the first nine months of 2019, FLEETCOR repurchased shares worth \$59.4 million. In 2018, 2017 and 2016, the company had repurchased shares worth \$958.7 million, \$402.4 million and \$187.7 million, respectively. Such moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. These shareholder-friendly initiatives not only instill investors' confidence but also positively impact earnings per share. This might have impacted the company's share price, which has improved 54.3% over the past year, outperforming the 42.5% rise of the industry it belongs to.

Reasons To Sell:

- ▼ FLEETCOR is seeing **higher interest expense** due to increase in LIBOR rate and additional borrowings for shares repurchase and to fund Cambridge acquisition (completed in 2017). During the first nine months of 2019, interest expense of \$115.09 million increased 14.8% year over year. The same rose 29.3% year over year in 2018. For 2019, the company expects interest expense to be between \$150-\$155 million, which is almost 20 million higher than 2018.
- ▼ FLEETCOR's fuel card, workforce payment solutions and gift card **businesses are affected by seasonality**. The company's fuel card and workforce payment solutions businesses are hampered during the first and fourth quarters as a result of the prevailing weather conditions, U.S. holidays, Christmas celebration in Russia in January, lower business activities in Brazil due to summer break and the Carnival celebration. The gift card business witnesses higher revenues during the third and fourth quarters, primarily due to the holiday season, and lower revenues in the first and second quarters due to fluctuating consumer spending patterns.
- ▼ FLEETCOR's global presence makes it vulnerable to the risks associated with **foreign currency exchange rate fluctuations**. Outside the United States, the company transacts in currencies like British pound, Brazilian real, Canadian dollar, Russian ruble, Mexican peso, Czech koruna, Euro, Australian dollar and New Zealand dollar. Notably, foreign exchange rates unfavorably impacted the company's revenues by \$6.9 million during the third quarter of 2019. In 2018, foreign exchange rates had unfavorably impacted the company's revenues by \$49 million.
- ▼ FLEETCOR's policy of acquiring a large number of companies results in some **integration risk**. Acquisitions can negatively impact its balance sheet in the form of a high level of goodwill and intangible assets, which totaled \$6.9 billion or 62.2% of total assets at the end of 2018. Moreover, frequent acquisitions are a distraction for management, which could impact organic growth.

Higher interest expense, seasonality, foreign currency exchange rate risks and integration risks act as headwinds.

Last Earnings Report

FLEETCOR Tops Q3 Earnings & Revenues Estimates

FLEETCOR Technologies reported strong third-quarter 2019 results wherein both earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings of \$3.10 per share outpaced the consensus estimate by 5 cents and increased 15.7% year over year. Notably, the reported figure came in line with the higher end of the guided range of \$3.00-\$3.10.

Revenues of \$681.05 million beat the consensus mark by \$0.9 million and increased 10% year over year on a reported basis and 11% on a pro-forma and macro-adjusted basis.

Organic revenues rose 11% in the reported quarter, driven by solid double-digit growth across the company's product categories namely fuel, corporate payments, tolls and lodging. Its fuel card business was up 10%, corporate payments increased 24%, toll business grew 17% and lodging business increased 17% organically.

Revenues in Detail

Segment-wise, revenues from North America came in at \$442.70 million, up 7.2% year over year. Internationally, revenues of \$238.34 million increased 15.3% year over year.

Product category-wise, fuel revenues of \$295.6 million increased 4% year over year on a reported basis and 10% on a pro-forma and macro-adjusted basis.

Corporate Payments revenues of \$138.5 million increased 31% year over year on a reported basis and 24% on a pro-forma and macro-adjusted basis.

Tolls revenues of \$88.7 million improved 16% year over year on a reported basis and 17% on a pro-forma and macro-adjusted basis.

Lodging revenues of \$56.4 million increased 17% year over year on a reported basis as well as on a pro-forma and macro-adjusted basis.

Gift revenues of \$48.5 million decreased 14% year over year on a reported basis and 16% on a pro-forma and macro-adjusted basis.

Other revenues of \$53.4 million increased 7% year over year on a reported basis as well as on a pro-forma and macro-adjusted basis.

Operating Results

Operating income increased 17.1% from the prior-year quarter to \$329.14 million. Operating income margin rose to 48.3% from 45.4% in the prior-year quarter.

Balance Sheet & Cash Flow

FLEETCOR exited third-quarter 2019 with cash, cash equivalents and restricted cash of approximately \$1.47 billion compared with \$1.49 billion at the end of the prior quarter.

The company generated \$241.11 million of net cash from operating activities. Capital expenditures totaled \$16.71 million.

In the reported quarter, FLEETCOR repurchased nearly 184,000 shares for \$55 million and has \$489 million available under its current authorization. The company's board of directors authorized an additional \$1 billion increase in its previously announced share repurchase program and extended the program by three years. Considering the company's \$1.611 billion of previous repurchases, it can now repurchase up to \$1.489 billion by Feb 1, 2023.

2019 Guidance

For 2019, FLEETCOR updated its revenue and adjusted earnings guidance. Total revenues are now anticipated in the range of \$2.64-\$2.66 billion compared with the previously guided range of \$2.63-\$2.68 billion. Adjusted earnings are now expected in the range of \$11.68-\$11.78 per share compared with the prior guided range of \$11.53-\$11.83 per share.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	0.13%
EPS Surprise	1.64%
Quarterly EPS	3.10
Annual EPS (TTM)	11.40

Recent News

On **Dec 4, 2019**, FLEETCOR announced the appointment of Steve Greene as executive vice president of Corporate Development and Strategy, effective immediately.

On **Oct 2, 2019**, FLEETCOR announced that it has completed the acquisition of Travelliance — an airline lodging program provider.

On **Sep 10, 2019**, FLEETCOR announced the appointment of Alexey Gavrilnya — who lead the company's European Fuel Card business — to group president of its North America Fuel Card business

On **Aug 6, 2019**, FLEETCOR announced the appointment of John Coughlin — the company's executive vice president of Global Corporate Development — to group president of Corporate Payments.

Valuation

FLEETCOR shares are up 54.3% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 42.5%, 32.9% and 25%, respectively in the same time frame.

The stock is currently trading at 21.32X forward 12-month price-to-earnings, which compares to 27.11X for the Zacks sub-industry, 24.45X for the Zacks sector and 18.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.58X and as low as 15.68X, with a 5-year median of 21.44X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$306.00 price target reflects 22.57X price-to-earnings.

The table below shows summary valuation data for FLT

Valuation Multiples - FLT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	21.32	27.11	24.45	18.71
	5-Year High	26.58	27.56	24.49	19.34
	5-Year Low	15.68	20.78	18.76	15.17
	5-Year Median	21.44	22.92	20.56	17.44
P/S F12M	Current	8.54	10.21	3.87	3.47
	5-Year High	10.91	11.65	5.13	3.47
	5-Year Low	5.38	7.19	3.09	2.54
	5-Year Median	7.61	8.69	3.63	3
P/B TTM	Current	6.43	7.86	4.86	4.41
	5-Year High	7.8	12.79	6.73	4.45
	5-Year Low	3.61	5.34	4.13	2.85
	5-Year Median	4.87	7.84	5.34	3.6

As of 01/06/2020

Industry Analysis Zacks Industry Rank: Top 30% (76 out of 254)



Top Peers

Cardtronics PLC (CATM)	Neutral
Envestnet, Inc (ENV)	Neutral
EVO Payments, Inc. (EVOP)	Neutral
Evertec, Inc. (EVTC)	Neutral
Fiserv, Inc. (FISV)	Neutral
Green Dot Corporation (GDOT)	Neutral
Global Payments Inc. (GPN)	Neutral
WEX Inc. (WEX)	Neutral

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	FLT Neutral	X Industry	S&P 500	FISV Neutral	GPN Neutral	WEX Neutral
VGM Score	C	-	-	C	B	C
Market Cap	25.10 B	2.51 B	23.72 B	79.50 B	56.49 B	9.31 B
# of Analysts	10	5.5	13	14	14	10
Dividend Yield	0.00%	0.00%	1.79%	0.00%	0.41%	0.00%
Value Score	C	-	-	D	D	D
Cash/Price	0.06	0.07	0.04	0.01	0.04	0.07
EV/EBITDA	17.80	17.80	13.90	43.66	47.56	20.86
PEG Ratio	1.37	1.71	2.00	1.71	1.37	1.42
Price/Book (P/B)	6.42	4.37	3.34	2.36	2.02	5.02
Price/Cash Flow (P/CF)	20.78	16.99	13.67	25.36	21.23	17.39
P/E (F1)	21.37	21.37	18.72	23.63	24.88	20.47
Price/Sales (P/S)	9.68	5.05	2.66	10.33	14.85	5.59
Earnings Yield	4.68%	4.58%	5.31%	4.23%	4.02%	4.88%
Debt/Equity	0.85	0.33	0.72	0.66	0.32	1.46
Cash Flow (\$/share)	13.91	2.62	6.94	4.61	8.85	12.36
Growth Score	B	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	19.45%	16.43%	10.56%	16.43%	21.58%	13.78%
Proj. EPS Growth (F1/F0)	15.16%	17.59%	7.42%	23.44%	22.41%	14.82%
Curr. Cash Flow Growth	18.48%	10.67%	14.83%	18.73%	25.04%	31.18%
Hist. Cash Flow Growth (3-5 yrs)	24.67%	10.92%	9.00%	8.93%	24.12%	17.85%
Current Ratio	1.12	1.14	1.23	1.08	1.17	1.30
Debt/Capital	45.89%	34.31%	42.92%	39.69%	24.33%	60.59%
Net Margin	37.08%	10.25%	11.08%	12.11%	10.59%	3.95%
Return on Equity	26.81%	19.33%	17.16%	16.73%	9.05%	18.86%
Sales/Assets	0.22	0.44	0.55	0.26	0.17	0.21
Proj. Sales Growth (F1/F0)	10.62%	10.50%	4.15%	6.99%	63.76%	10.38%
Momentum Score	B	-	-	D	A	C
Daily Price Chg	-0.56%	0.42%	0.10%	0.48%	1.94%	0.47%
1 Week Price Chg	1.75%	0.00%	-0.30%	-0.61%	0.83%	2.17%
4 Week Price Chg	-4.44%	3.10%	2.33%	1.90%	7.30%	8.93%
12 Week Price Chg	-0.50%	3.77%	7.02%	10.29%	14.52%	4.41%
52 Week Price Chg	55.45%	41.30%	24.61%	60.03%	79.19%	48.60%
20 Day Average Volume	791,971	398,237	1,589,897	2,136,790	1,569,355	188,032
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.03%	0.00%	0.00%	-0.01%	0.06%	-0.26%
(F1) EPS Est 12 week change	0.46%	0.23%	-0.56%	1.92%	6.92%	-0.06%
(Q1) EPS Est Mthly Chg	0.19%	0.00%	0.00%	-0.40%	1.66%	0.21%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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